LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6533
BILL NUMBER: SB 446

DATE PREPARED: Jan 10, 1999
BILL AMENDED:

SUBJECT: Inheritance tax exemption for lineal descendants.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues			**(19,480,000)**
State Expenditures			**2,033,000**
Net Increase (Decrease)			**(21,513,000)**

Summary of Legislation: This bill provides a complete exemption from the inheritance tax for property interests transferred to lineal descendants and ancestors (Class A transferees) with respect to decedents who die after June 30, 1999.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This analysis relies on the State Revenue Forecast issued December 17, 1998. This forecast uses an estimate of $136.7 million in annual revenue from the Inheritance Tax and Estate Tax for FY 99, FY 2000 and FY 2001. The new forecast also takes into account the loss of revenue which results from legislation passed in 1997 and increased the exemption for Class A beneficiaries beginning July 1, 1997.

P.L. 254-1997 provides for the Inheritance Tax replacement for the counties. This bill will impact the state General Fund as a result of the replacement. An explanation of that provision and the amount needed for replacement is described in the section on Local Revenues, below. Beginning with FY 2001, the state General Fund will experience an annual expenditure of $2,033,000.

Explanation of State Revenues: With respect to the exemption of Class A beneficiaries, the estimated revenue loss is based on an OFMA staff report that examined a series of returns that the Department of Revenue received between April and June of 1992. This study included 511 estates from 65 counties affecting 2,165 beneficiaries.

Of the taxes paid in this sample, 38% were paid by Class A beneficiaries, 32% were paid by Class B beneficiaries and 30% were paid by Class C beneficiaries.

Based on this sample, forecasted revenue of $136.7 million for FY 1999, and the assumption that 10% of the revenue comes from the estate tax which is not impacted by this bill, the revenue loss to the State General Fund for FY 2001 would be $23,375,000. **This represents the loss from Inheritance Tax resulting from eliminating tax for Class A transferees. The net impact of this bill is described in the table below.**

Based on historical data, approximately 10% of collections are attributable to the Indiana Estate Tax. This bill does not repeal the Indiana estate tax. While a revenue loss will occur because of this proposal, this will be somewhat offset by revenue collected from the Indiana Estate Tax.

Note: The federal tax change of 1997 relating to Estate and Gift Tax will negatively impact the receipt of state Estate Tax over a period of years. At least two new provisions will raise the amount of exempt assets from federal estate and gift taxation. This will negatively impact the amount of state Estate Tax collected by Indiana by a small amount. The phase in of the increase in exempt amounts is gradual (even stagnant in some years) and does not make a major jump until 2004. These early changes will have an almost imperceptible impact on the amount of state Estate Tax which is paid to Indiana. Even in 2004 (impacting state FY 2006) the impact will be relatively small. Based on the current law in Indiana, by the time the full $1,000,000 amount is phased in, Indiana will collect between $1 and $2 million less in state Estate Tax per year than under the current $600,000 limitation. The other new provision of significance will allow "qualified family-owned business interests" to be exempt from federal estate and gift taxation beginning in 1998. This change will also result in a reduction of state Estate Tax collections over a period of years.

Stated below is an estimate of the revenue impact on the state General Fund.

Fiscal Year	Revenue Loss from Inheritance Tax	Revenue Gain From Estate Tax	Net Effect From Exemption
2001	($23,375,000)	$3,895,000	($19,480,000)

Summary of State Impact: Based on the above estimates for expenditure and revenue impacts, the total loss to the state, by year, is estimated to be the following.

Fiscal Year	Revenue Loss from Exemption	Expenditure for County Replacement	Total Effect From Exemption and Replacement
2001	($19,480,000)	$2,033,000	($21,513,000)

Explanation of Local Expenditures:

Explanation of Local Revenues: P.L. 254-1997 contains a method for calculating an amount which will be used to distribute amounts to the counties which approximates the amount they have received from Inheritance Tax in the past.

Since most of the estates which pay tax during CY 99 will be calculating Inheritance Tax and pick up tax under the law prior to the effective date of this bill, most of the revenue retained by counties will be based on 8% of the Inheritance Tax paid.

The amount needed for replacement for each year beginning with 2000 is based on the forecasted amount for the state General Fund for 1999. Total replacement for county general funds, to be paid from the state General Fund, state wide for each year is estimated below.

Calendar Year	**Replacement Needed for County General Funds**
2000	$1,017,000
2001	$2,033,000

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: Indiana Department of State Revenue, Bill Reynolds, 232-2075.